GEO

Guyana Economic Opportunities

Institute for Private Enterprise Development (IPED)
Action Plan 2000

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I. Introduction

The following business plan outlines how the Institute of Private Enterprise Development (IPED) will strengthen the institutional capacity of its Microcredit Window during 2000. This plan follows a two-year period of stabilization and consolidation for IPED, during which time it successfully controlled and reversed a serious arrears problem while modestly expanding its client base. Now that IPED's microcredit operations are under control, management will take the next step and strengthen IPED institutionally. This will involve the evaluation and modification of IPED's management and operational infrastructure so that it can be upgraded to Best Practice standards over the course of the next twelve months.

The attached business plan provides a detailed framework for how this institutional strengthening process will take place. First, IPED will assess where it presently stands in terms of its strengths and weaknesses so that it can build upon the former and fortify the latter. Then, based upon these findings, it will modify its management and operational infrastructure, specifically focusing on six areas fundamental to IPED's Microcredit Window. These are credit methodology, credit terms, administrative structure, management information systems, financial management, and incentive systems. Finally, IPED will develop a comprehensive training plan to ensure that recommended changes are implemented effectively.

Even though this business plan focuses exclusively on IPED's microcredit operations, it is important to remember that IPED also offers credit services through its Main Window, which is geared towards clients with title to real property and larger credit requirements. Moreover, IPED offers clients training courses through its newly created Training Institute. While IPED has taken great efforts to separate out its three business activities from a physical and accounting perspective, management understands that ultimately they are all interrelated. Thus, while this plan ostensibly focuses on the Microcredit Window, much of what is detailed in the pages ahead will impact IPED's operations overall, particularly with regard to Management Information Systems (MIS), Incentive Systems, and Training. Nevertheless, management recognizes that this is no substitute for addressing IPED's needs holistically and fully intends to embark on a comprehensive strategic and business planning process for the entire institution in 2001.

II. Institutional Assessment

As was previously mentioned, the first step toward strengthening IPED's Microcredit Window will be to assess its strengths and weaknesses with the goal of building upon the former and fortifying the latter. With the assistance of an outside consultant provided through the USAID/Guyana Economic Opportunities (GEO) project, IPED will undertake an institutional assessment that will be broken down into three parts: financial analysis, credit operations analysis, and credit services analysis.

A. Financial Analysis

The purpose of analyzing the financial performance of IPED's Microcredit Window will be to derive general indicators relating to its sustainability. Simply defined, a sustainable microfinance institution is one that covers all of its expenses with operational income and generates a surplus sufficient to maintain the real value of its equity base. The financial analysis will examine IPED's audited financial statements from 1997 – 1999 and will focus on the following areas:

- **Financial Statements Adjustment.** To properly analyze IPED's financial strength, it will be necessary to adjust its financial statements in order to:

  - Ensure that IPED's portfolio and fixed asset accounts reflect their true value and that adequate provision has been made for bad loans and depreciation.

  - Verify that IPED has accounted for all resources received from donor agencies, and that only income actually received – as opposed to accrued – from lending operations is reported.

- **Levels of Cost Coverage.** In order to determine IPED's overall efficiency and long term viability, it will be necessary to distinguish between its various types of costs and its different levels of cost coverage. Specifically, these include:

  - *Actual Financial Costs*: At the most basic level, it will be important to determine the difference, or spread, between IPED's gross yield on performing assets and actual financial costs. This is commonly referred to as the *gross financial margin*.

  - *Operational Costs*: These include administration and personnel costs as well as the cost of maintaining an adequate provision for loan losses. For IPED to be profitable, its gross financial margin must be sufficient to cover its operational costs. The difference between the two is known as the *net operating margin*.

  - *Imputed Cost of Capital*: In addition to covering financial and operational costs, IPED must generate a surplus sufficient to preserve the real value of its capital. Two benchmarks are often used to determine the economic cost of maintaining the real value of capital. The inflation rate and the opportunity cost of capital as determined by financial markets. Whichever is selected, it must be calculated and then imputed in the financial analysis.

- **Cost-Structure Analysis.** To determine how efficiently IPED is managing its assets, income derived from its income-generating assets will be compared to its financial, operational and imputed capital costs expressed as a percentage of performing assets. By analyzing IPED's cost structure, it will be possible to accurately assess its profitability by determining:

  - Whether or not IPED's financial margin is sufficient to cover its operating costs.
  - Whether or not IPED is decapitalizing.

  - Whether or not a subsidy is required to maintain IPED over the long-term.

- **Asset & Liability Structure Analysis.** After evaluating IPED's general financial performance, it will be important to examine how its balance sheet (assets, liability, and equity) is structured so as to determine whether or not its resources are efficiently allocated.

- **Income Structure Analysis.** In addition to analyzing IPED's balance sheet, it will be important to analyze its sources of income (credit income, investments, donations) and expenses (personnel, administration, depreciation, reserve, extraordinary write-offs, financial). This will illustrate the relative importance of IPED's different income sources as well as provide a profile of IPED's cost structure. It will be especially important to identify significant trends and relationships that this exercise will surely illuminate.

B. Credit Operations Analysis

While the above *financial analysis* will yield a general understanding of IPED's financial performance, the following *credit operations analysis* will result in a deeper understanding of the key factors driving operational efficiency and, to a large extent, profitability. Moreover, this exercise will enable IPED to pinpoint specific operational procedures and lending policies in its Microcredit Window that may be inefficient.

The credit operations analysis will consist of two steps: 1) a *historical data analysis* that will produce a general set of indicators regarding IPED's operational efficiency: 2) a *productivity analysis* based upon a detailed examination of IPED's Microcredit Window operations. If IPED's output and portfolio indicators (see below) compare similarly to the results of the productivity analysis, then it will know whether or not it is operating at full capacity. If this is the case, then increases in IPED's financial performance can only be achieved through changes in its lending policies and/or streamlining operational procedures. However, if the comparison reveals that IPED is not functioning at its potential productive capacity, then it can probably increase operational efficiency through more efficient time management.

- **Historical Data Analysis.** To analyze the current level of efficiency of the Microcredit Window, the following data must be gathered:

  Personnel Resources

  - Average # of Loan Officers.
  - Average # of Staff in Credit Operations.

  Output Data

  - Number of loans disbursed during the fiscal year.
  - Number of loans disbursed to first-time borrowers during the fiscal year.
  - Amount disbursed during the fiscal year.

- Average loan amount disbursed during the fiscal year.

Portfolio Data

- Weighted average outstanding loan portfolio.
- Weighted average number of active loans.
- Weighted average outstanding loan balance.

Efficiency Indicators

Output Data Indicators

- Loans disbursed per credit officer per year.
- Amount disbursed per credit officer per year.

Portfolio Data Indicators

- Active loans per credit officer.
- Outstanding principal portfolio per credit officer.
- Active loans per credit staff.
- Outstanding principal portfolio per credit staff.

By collecting the above data, it will be possible to benchmark IPED's performance against leading microfinance institutions that regularly track this data. If IPED's costs turn out to be higher than industry standards, the following *productivity analysis* exercise will help to determine whether or not it is due to inefficient lending policies and operational procedures or to a sub-optimal scale of operations. *This is a critical point to understand as growth may remedy the latter problem, whereas it will compound the former.*

- **Productivity Analysis of Program Operations.** While the *historical data analysis* will help IPED to assess its current level of operational performance, it will not identify the key operational factors driving its productive capacity. As was just mentioned, this can only be determined through a *productivity analysis* of IPED's basic operational procedures. By analyzing credit officer caseloads as well as those of management and support staff, productivity analysis will reveal the maximum portfolio possible given the time required to execute current operational procedures. Thus, this exercise will demonstrate the "productivity limits" of IPED's current lending policies and procedures, and will serve as an invaluable management tool for making accurate projections about IPED's portfolio growth and operational costs that are based on realistic assumptions about IPED's operational capacity. This analysis will also be extremely useful when it comes to identifying policies and procedures that could be changed to render IPED more efficient. (This subject is addressed in Section III of this business plan).

C. Credit Services Analysis

The third and final part of the institutional assessment of IPED's Microcredit Window will be to analyze IPED's credit products and services from its clients' perspective. Specifically, the *credit service analysis* will focus on the following four areas:

- Product Design.
- Affordability.
- Accessibility.
- Client Analysis.

- **Product Design.** Fundamental to IPED's long-term success is understanding whether or not its current lending products correspond to its clients' financing requirements. In order to determine whether or not this is the case, IPED will analyze its two primary lending products, working capital loans and fixed asset loans. Specifically, the analysis will examine the following loan conditions and whether or not they are appropriate to client needs:

  - Loan Size: minimum, maximum and average.
  - Loan Term: minimum, maximum and average.
  - Average Outstanding Loan.
  - Average Monthly Payment.

- **Affordability.** Determining the total transaction costs (direct and indirect) incurred by IPED clients and how they compare to alternative sources of financing (e.g. Scotia Enterprises, moneylenders, etc.) is important especially if competition in Guyana's microcredit market increases. Specifically, this exercise will focus on two different levels of client costs:

  - **Direct Costs:** These include interest and fees paid by the client. Note: this exercise will enable IPED to calculate the *real effective interest rate* that it charges clients. The *real effective interest rate* captures all direct costs associated with the loan (e.g. processing fees, training fees, forced savings) and adjusts for inflation.

  - **Indirect Costs:** This analysis will focus on how much time the client spends meeting all of the loan approval requirements. The amount of time between loan request and disbursement, number of client visits to the office, and total number of hours the client must dedicate to the loan origination process will all be examined.

- **Accessibility.** IPED will closely examine its follow-up loan policies in order to determine whether or not its credit services are easily accessible over the long term.

- **Client Analysis.** The final piece of the credit service analysis will be to compile and analyze basic client information including:

  - Economic Activity (agricultural, production, commerce, service)

  - Location (urban vs. rural)

  - Gender

  - Product (working capital vs. fixed asset)

  - Repeat customers (2nd, 3rd, 4th, etc. loans)

  Cross-tabulating the above information should yield important insights relating to IPED's portfolio distribution, providing IPED with basic but valuable market information regarding which kinds of clients prefer which kinds of products. Moreover, all information gleaned during the *client analysis* process will prove extremely useful when it comes to designing future credit products and launching new marketing efforts.

III. Evaluate Management and Operational Infrastructure & Raise to Best Practice Standards

The second phase of strengthening IPED's institutional capacity will involve utilizing insights gleaned from the Microcredit Window assessment to determine which parts of it need modification as well as to chart a clear course for how to do so. Specifically, the following six areas of IPED's management and operational infrastructure will be evaluated and upgraded, as necessary, to Best Practice Standards.

- **Credit Methodology.** The methodology IPED employs to originate and monitor loans effectively determines the number of active loans that a credit officer can manage at one time and thus sets limits for its basic productive capacity as an institution. Every policy and procedure will be assessed in order to streamline the loan portfolio management process according to Best Practice Standards. This will result in more efficient operational systems as well as reduce client costs.

- **Credit Terms.** In addition to assessing whether or not IPED's credit terms are appropriate from a client perspective, IPED will evaluate whether or not they are appropriate from an institutional perspective as well. This is essential as credit terms effectively determine the income generating capacity of an institution's portfolio. If a credit officer is able to originate a fixed number of loans per month given the credit methodology, then the average size of the outstanding portfolio and its income generating capacity are determined by the average size of the loan, the loan term and the interest rate. The financial analysis undertaken during the assessment will indicate whether or not the interest charged by IPED is sufficient to cover its lending costs. However, even if it is, IPED will still need to determine whether or not its credit terms are adequate relative to its future expansion plans.

- **Administrative Structure.** Using information garnered during the assessment process, IPED will evaluate the administrative structure of its Microcredit Window in order to determine how it's impacting its performance in terms of cost and efficiency. Trend analysis will be used to determine whether or not IPED's administrative structure is increasing or decreasing its efficiency. This is critical as, after maximizing the productivity of its credit officers, IPED can only achieve more efficient economies of scale by reducing the ratio of management and support staff to credit officers. In particular, it will be essential to analyze the distribution of authority and responsibility within IPED in terms of how it is facilitating or encumbering the credit decision process.

- **Management Information Systems.** In 1998, IPED implemented a new information system that helped to improve efficiency. Unfortunately, design problems require that IPED either improve or upgrade this system as it fails to provide management and staff with the key information they need when they need it. MIS is fundamental as almost every operational or management problem can be traced to the lack or inefficient use of information. Specifically, IPED must either modify or replace its existing system so that it can more easily set clear operational objectives as well as manage its finances and portfolio more effectively. Moreover, IPED must ensure that its MIS is designed so that right information flows between operations, management and the board of directors. Through the use of an MIS/Microcredit Specialist provided by the USAID/GEO Project, IPED will design an MIS that meets its needs and is accordance with Best Practice Standards.

- **Financial Management.** Determining how effectively IPED is managing its capital, liabilities and assets will become readily apparent from the financial analysis part of the institutional assessment. Specifically, IPED will need to determine whether or not it is maintaining the real value of its equity and concessional loans. If it's not, management will have to develop a strategy to reverse this trend, especially when it comes to mobilizing resources for expansion.

- **Incentive Structures.** IPED recently moved to implement a performance-based incentive system for its credit officers based on the model of the Dominican microfinance institution, ADEMI. Unfortunately, due to the limitations of its information system, its effectiveness as a management tool for increasing productivity and maintaining credit portfolio quality has been severely limited because management and staff cannot calculate bonuses easily and in a timely manner. As a result, IPED only pays bonuses two to three times a year. IPED will remedy this issue when it upgrades/replaces its information system. Moreover, it will also examine developing an incentive system for administrative staff and branch managers.

IV. Develop Training Plan to Support Institutional Strengthening

The third phase of the institutional strengthening process will be to develop a comprehensive training plan that will ensure that staff – operational, administrative, managerial – is properly trained in any design changes to the Microcredit Window stemming from the institutional assessment and modifications to IPED's management and operational infrastructure. While it is impossible to accurately predict exactly what IPED's specific training needs will be until after phases one and two of the institutional strengthening process are completed, training will most likely include the following areas:

Operations Staff

- Credit analysis.
- Credit methodology.
- Lender Skills.
- Promotional and Marketing Skills.
- Utilizing MIS Effectively.

Administrative Staff

- Human Resources Management.
    - Recruitment.
    - Training.
    - Incentive Systems.
- Utilizing MIS Effectively.

Managerial Staff

- Strategic and Business Planning.
- Financial Management.
- Market and New Product Development.
- Utilizing MIS Effectively.
    - Reporting.
    - Internal Control.

Board

- Governance.

Throughout the institutional strengthening process, it will be important to identify leading microfinance institutions in the Caribbean (ADEMI, for example) and elsewhere that can serve as models for IPED. For instance, the visit by IPED staff a few years ago to ADEMI had a significant impact on the program by stimulating new ideas that led to positive modifications in program design. More visits to outside institutions and conferences (Boulder, Colorado, for example) should be offered to key staff, not only to disseminate Best Practice Standards and stimulate new thinking, but also to provide an incentive to staff that sends the signal that IPED is committed to investing in their professional development.

V. Looking To The Future

As was mentioned in the introduction, IPED management views 2000 as the final phase of a stabilization and consolidation process that began two years ago in response to the arrears crisis that it was experiencing in its Microcredit Window. Now that arrears have been under control for well over a year, and several steps have been taken on an ad hoc basis to improve operations, IPED is ready to undergo the comprehensive institutional strengthening process described in this business plan. After this process is completed in the next twelve months, IPED will be in a strong position to seriously evaluate its prospects for long-term growth and viability. At that time management will initiate a comprehensive strategic and business planning process that will examine IPED in its entirety and chart a course for how IPED can make a larger impact on the Guyanese microbusiness sector.

Attachment 1

Microcredit Window Targets: 2000 – 2001

The following table presents actual and projected performance figures for IPED's Microcredit Window for the years 1999 – 2001.

Indicator	Actual (12/99)	Projected (12/00)	Projected (12/01)
# Active Borrowers	2997	4100	4900
# Loans Outstanding	2997	4100	4900
# Savers	2209	3100	3900
Value Of Loans Outstanding (G$)	123,660,000	187,000,000	NA
Loan Loss Rate	3.9%	3.2%	3%
Portfolio At Risk > 30 Days (G$)	29,659,000	23,600,000	25,500,000
# Borrowers Per Loan Officer	209	230	250
Operational Self-Sufficiency	400%	250%	NA
Financial Self-Sufficiency	215%	166%	NA
Operating Efficiency Ratio	24%	61%	NA